

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Proposed Financing Plan – Medical Education and Biomedical Research Facility – Building B

Date: February 12, 2001

Recommended Action:

Receive the report on the proposed financing of the Medical Education and Biomedical Research Facility – Building B.

Executive Summary:

In November 1999, the Board granted the University permission to proceed with planning for the Extension of the Medical Education and Biomedical Research Facility (MEBRF - B). This month, as part of its capital register (SUI B-1), the University requests the Board to approve the program statement for the project, which provides a comprehensive assessment of the programmatic needs and space requirements of the units to be accommodated within the building. The University estimates MEBRF – B will cost \$40 million.

The University and the Board's bond counsel will discuss with the Banking Committee, at its February 2001 meeting, the proposed financing for the project, which is anticipated to be a combination of taxable and tax-exempt bonds to be issued by the University of Iowa Facilities Corporation. The bonds, which would have 25 principal payments, would be repaid through lease payments by the University to the Facilities Corporation. This methodology is similar to the repayment procedure being used for the Medical Education and Biomedical Research Facility (MEBRF), for which Facilities Corporation bonds were issued in 1998 and 2000. MEBRF is scheduled to be completed later this year.

Background:

The University of Iowa Facilities Corporation was incorporated in 1967 as a not-for-profit supporting organization of the University of Iowa Foundation to assist in maintaining, developing, increasing, and extending the facilities of the University. The Facilities Corporation helped finance construction of the Eckstein Medical Research Facility in 1986 and, more recently the MEBRF, which includes instructional facilities for students in the medical and related clinical program as well as research laboratories and support facilities for the College of Medicine.

As previously presented to the Board when permission to proceed with planning was granted, MEBRF - B is to house additional biomedical research space to accommodate the current and anticipated growth in the College of Medicine's research activities. During the November 1999 presentation, it was noted that since initiation of the MEBRF project, faculty of the College of Medicine had been highly successful in generating growth in extramural research funding. In the five-year span from FY 1994 to FY 1999, the College's research funding had increased from \$104 million to \$168 million, a growth of 62 percent. According to the University, FY 2001 research funding is estimated at \$180 million.

Vice President and Dean Kelch and Executive Dean Nelson will discuss Building B and other components of the Health Sciences Campus Capital Plan during the presentation of the program statement for MEBRF – B. (See SUI B-1.)

MEBRF – B will total approximately 127,000 gross square feet and will house research facilities and administrative functions of the College of Medicine. As currently planned, the basement and lower levels of the building would consist primarily of research laboratory and building support spaces, including animal care facilities. Level 1 would house the administrative units of the College of Medicine, and Levels 2 through 5 would provide research laboratories.

Building B would be constructed to the east of the Medical Education and Biomedical Research Facility on the current site of the east wing of the Steindler Building. The anticipated bid date for the project is January 2002.

Analysis:

The University proposes to fund the MEBRF – B project through the sale of revenue bonds by the University of Iowa Facilities Corporation with bond debt serviced by lease payments from the University under a lease arrangement between the University and the Corporation. Lease payments would be made from a combination of College of Medicine earnings and gifts.

As currently envisioned, the financing plan would involve the issuance of two bond series (\$44.6 million total to achieve \$40 million in proceeds for the project after allowance for debt service reserves and issuance costs), under a single bond indenture trust. One of the bond series would be a federally (but not state) tax exempt issue for that part of the project cost which qualifies for tax exemption. This amount, which is currently estimated not to exceed 40 percent, would be determined after completion of construction drawings.

The other bond series would be a taxable issue for project costs which are defined as private use activities under U.S. Internal Revenue Service rules. The Board Office believes that this proposed issuance of taxable bonds by the Facilities Corporation would be the first time that the Board or any of its affiliated organizations would have issued taxable bonds for the benefit of a Regent institution. The Board's bond counsel will discuss with the Banking Committee the Internal Revenue Service's rules relating to classification of research contracts as "private use" and any implications for the Board on the proposed issuance of taxable bonds by the Facilities Corporation.

Springsted, Inc., the Board's financial advisor, estimates that the combined interest rate for the bond issues would be approximately 6.5% to 6.75% with current market rates of 5.5% for tax exempt bonds and 7% for bonds issued on a taxable basis. With these assumptions, the estimated annual debt service payment would be approximately \$3.6 million. Springsted anticipates that there would be strong demand for the bonds in the tax exempt and taxable bond markets.

The annual debt service payments on the Eckstein Medical Research Building and MEBRF total approximately \$6.1 million. However, the bonds for the Eckstein facility will mature in 2005, and the annual lease payment of \$2.1 million will no longer be needed, leaving the existing debt service of \$4.0 million for MEBRF.

The gross, annual debt service for MEBRF and MEBRF – B would then total \$7.6 million. Interest earnings on the reserve funds would reduce the annual, net amount due to approximately \$7.2 million.